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SUBJECT: ENCE Sells Forestry Holdings, New Owners Announce an 18-Month Review of Uruguay's Largest-ever Planned Investment

¶11. (SBU) SUMMARY: Spanish forestry firm ENCE announced on May 22 the sale of most of its forestry plantations to a consortium formed by Finnish-Swedish Stora Enso and Chilean Arauco, and that it will not continue with plans to build a \$1.2 billion cellulose plant. Stora Enso/Arauco announced they would reevaluate the size and the location of the future plant, for which site development was already underway. ENCE's projected investment, which would have been the largest in Uruguay's history, had raised adamant opposition in neighboring Argentina and stoked political frictions between the GOA and the GOU on top of the ongoing dispute related to the Botnia pulp mill. END SUMMARY.

ENCE sells investments in Uruguay and cancels long-promised plant

¶12. The participation of Spanish forestry firm ENCE in Uruguay's forestry boom came to a sudden halt on May 22, when it announced the sale of most of its forestry plantations (274,000 acres) and investments to a consortium formed by Finnish-Swedish Stora Enso and Chilean Arauco. The sale, valued at \$340 million, put an end to ENCE's longstanding plan to undertake the largest investment in Uruguay's history: a major pulp mill worth \$1.25 billion. Stora Enso/Arauco announced they would reevaluate the size and the location of the future plant. ENCE kept 74,000 acres of Eucalyptus plantations, a sawmill, and two medium-sized chipping operations to supply its Spanish-based plants with chips. A representative of U.S. forestry company Weyerhaeuser told emboff that the sale of ENCE's forestry holdings was expected, but that the partnership between Stora Enso and Arauco was not anticipated. While unexpected, he said Stora Enso and Arauco already have a joint venture in Brazil and this land purchase makes their forestry holdings more diverse and balanced. There is probably still room in Uruguay for a second pulp mill.

ENCE's erratic activities in Uruguay

¶13. ENCE began operations in Uruguay in 1990 by purchasing land and planting pine and eucalyptus. In 2003, it launched a riverside port terminal on the Uruguay River (near the city of Fray Bentos) and began building a chipping plant in Montevideo. Also in 2003, it announced the construction of a major cellulose plant near Fray Bentos that would be operational by 2008. The announcement aroused strong opposition in Argentina, especially from people living in the town Gualeguaychu (on the opposite shore of the Uruguay River) who feared the ENCE plant, along with the eventually completed Botnia plant, would pollute the river. Gualeguaychu activists began a blockade of the bridge connecting Uruguay and Argentina which continues until now. Arguing that the plant was too close to Botnia's, in September 2006, ENCE's president Jose Arregui announced that ENCE would relocate its planned plant to Colonia (on the shore of the Rio de la Plata and farther away from Argentina). Arregui also announced the doubling of the project's size to \$1.25 billion.

In January 2008 ENCE obtained the permissions to relocate and begin constructing its plant. Excavation work was underway.

Background on the growing importance of forestry in Uruguay

¶4. The forestry sector is one of the most important and fastest growing sectors of Uruguay's economy. Spurred by an extremely favorable climate and good soils, good market conditions and sectoral government policies adopted in the late 1980's, forestry plantations in Uruguay jumped from 4,000 acres/year in 1988 to 125,000 acres/year in 2008 (with a peak of 200,000 acres per year in 1998). There are currently about 2.1 million acres of planted forests and another 7.5 million acres reserved for future forestry activities. Uruguay continues to attract the attention of major paper companies that are either in the process of establishing themselves (Stora Enso, Arauco), or scouting prospects (Nippon Paper, Portucel). Over the last two decades Uruguay has received over \$3 billion in investments in forestry, and forestry products will soon become one of the top three exports.

Stora Enso's plans

¶5. ENCE's sale of its Uruguayan project to Stora Enso reduces from three to two the number of pulp mills in Uruguay's near future. Notwithstanding, the chances that the mill will indeed be constructed increase with this purchase, and the acquisition of ENCE's forested areas (together with that already owned by the Finnish company) gives Stora Enso the critical mass necessary to begin the industrialization process. While ENCE already had concluded their feasibility studies and had obtained the necessary environmental permits to construct its plant in Colonia, Stora Enso

had traditionally been looking at Uruguay's interior for the development of its project. Immediately after the purchase, Stora Enso announced it would begin new investment and feasibility studies that will require from twelve to eighteen months' work.

MATTHEWMAN